Agricultural Credit

Farm business debt at the end of 1997 was $165.4 billion, up $9.3 billion from 1996. Farm real estate debt rose $3.7 billion (over 4 percent) from 1996 to $85.4 billion at the end of 1997, while farm business nonreal estate debt increased $5.6 billion (over 7 percent) to $80.1 billion at the end of 1997. The increase in farm debt in 1997 was higher than the recent trend of modest growth in outstanding loan balances.

While volatile commodity prices have generated some concern about short-term profitability in some farm enterprises, farmers and lenders maintain confidence in the long-run viability of agriculture. The availability and use of credit plays a significant role in the sustained profitability of farm enterprises. In this regard, a symbiotic relationship exists between agricultural producers and their lenders; the health of one depends on the condition of the other.

Loans made to agricultural producers are classified as real estate and non-real-estate loans in the farm sector accounts. Real estate loans generally have terms of 10 to 40 years and are ordinarily used to purchase farmland or to make major capital improvements to farm property. Non-real-estate loans are typically made for loan terms of less than 10 years, with the term depending on the purpose of the loan. Seasonal operating loans are made for less than 1 year, while loans to purchase machinery and equipment or livestock may run for 7 years or more.

Commercial banks held over 40 percent of all farm business debt at the end of 1997, providing $25.2 billion in real estate loans (almost 30 percent of total) and $41.7 billion in non-real-estate debt (52 percent). The Farm Credit System (FCS) held $27.1 billion in farm business real estate loans and $15.2 billion in non-real-estate loans. In total, the Farm Credit System held about 25 percent of farm business loans. Favorable interest rate spreads improved FCS earnings during 1990-97. Improved borrower financial conditions have translated into improved Farm Credit System performance.

Life insurance companies maintained their presence in the agricultural credit market, as their total farm business debt rose slightly to $9.7 billion, giving them an 11-percent share of the farm business mortgage market. USDA's Farm Service Agency (formerly Farmers Home Administration) direct loans to farm businesses dropped by $600 million in 1997. The "Individuals and others" classification is composed primarily of sellers financing the sale of farmland, input suppliers, farm machinery finance corporations, and some minor lending agencies. These accounted for $19 billion in real estate loans and $18.8 billion in non-real-estate loans at the end of 1997.

Table 3-1.

Farm business debt, selected years

	Farm debt outstanding, December 31												
	1950	1960	1970	1980	1985	1990	1991	1992	1993	1994	1995	1996	
Real estate debt:						$ Billion							
Farm Credit System	0.8	2.2	6.4	33.2	42.2	26.0	25.3	25.4	24.9	24.6	24.9	25.7	27.1
Life insurance companies	1.1	2.7	5.1	12.0	11.3	9.7	9.5	8.8	9.0	9.0	9.1	9.5	9.7
Banks	0.8	1.4	3.3	7.8	10.7	16.3	17.4	18.8	19.6	21.1	22.3	23.3	25.2
Farm Service Agency	0.2	0.6	2.2	7.4	9.8	7.6	7.0	6.4	5.8	5.5	5.1	4.7	4.4
Individuals and others	2.1	4.5	10.5	27.8	25.8	15.2	15.6	16.1	16.7	17.5	18.0	18.5	19.0
Total	5.2	11.3	27.5	89.7	100.1	74.79	74.9	75.4	76.0	77.7	79.3	81.7	85.4
Non-real-estate debt:													
Banks	2.4	4.7	10.5	30.0	33.7	31.3	32.9	32.9	34.9	36.7	37.7	38.3	41.7
Farm Credit System	0.5	1.5	5.3	19.8	14.0	9.8	10.2	10.3	10.5	11.2	12.5	14.0	15.2
Farm Service Agency	0.3	0.4	0.7	10.0	14.7	9.4	8.2	7.1	6.2	6.0	5.1	4.6	4.3
Individuals and others	2.5	4.5	4.8	17.4	15.1	12.7	13.0	13.2	14.2	15.2	16.2	17.4	18.8
Total	5.7	11.1	21.3	77.1	77.5	63.2	64.3	63.6	65.9	69.1	71.5	74.4	80.1
Total, all	10.9	22.4	48.8	166.8	177.6	138.0	139.2	139.1	141.9	146.8	150.8	156.1	165.4

Source: USDA, Economic Research Service, Resource Economics Division.

The Balance Sheet

Farm business asset values are estimated to have totaled $1,088.8 billion on December 31, 1997, an increase of 5 percent over the preceding year. Farm business debt rose 6 percent during 1997, totaling $165.4 billion at year's end. As a result, farm business equity is estimated to have risen 5.2 percent.

The debt-to-asset ratio for 1997 (expressed as a percentage) increased from 15.1 to 15.2. This ratio is substantially below the peak of 24 percent reached in 1985.

Real estate assets accounted for 78 percent of the value of farm business assets at the end of 1997. Real estate assets are expected to have increased 6 percent during the year.

Non-real-estate assets are estimated to have increased 2 percent during 1997. The value of machinery and motor vehicles and for crops stored decreased from 1996 to 1997, whereas, the value of purchased inputs, financial assets, and livestock and poultry increased during this period.